



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

# EGYPT'S ECONOMIC POSITION AND GOLD HOARDING.

BY MAURICE L. MUHLEMAN.

---

THE unusual occurrence in our financial circles of a manifestation of interest in the economic affairs of Egypt, is in large measure due to the imperative demand for gold to finance that country's cotton crop. The demand recurs annually, after August, in the London and Paris money-markets, which are called upon to furnish each season from \$20,000,000 to \$40,000,000, the amount depending upon the size and market value of the crop. Coming, as it did, at a time when all of the money-markets were being subjected to an extraordinary strain to conserve their available and potential supplies of gold, in order to support the enormous credit liabilities which have been so largely expanded during the past decade, its influence was felt even on this side of the Atlantic. Hitherto, our money-market had exhibited no indications of even a remote relation to that of the realm of the Khedive; but, perhaps, the circumstance that we have in recent years increased our purchases of Egyptian cotton—these reaching in the fiscal year ended June 30th, 1907, nearly 79,000,000 pounds, valued at over \$16,000,000—served to stimulate the interest. Never before did we spend so large a sum for this cotton; for, even in 1902, when we took over 81,000,000 pounds, by far the largest quantity to that date, the values were only slightly in excess of \$9,500,000.

The Egyptian demand for gold is advisedly characterized as *imperative*; for that country has at its disposal a commodity which the rest of the world generally needs in a much greater measure than Egypt needs the gold which pays for it, viz.: the long-fibre cotton, ranking next in value to our very limited product of the Sea Island variety, of which it is indeed, so to speak,

an offspring. The demand for this fibre is almost as pressing as is that for food-products, and the majority of the Egyptian producers part with it only for actual gold; to them no paper representative of the yellow metal is acceptable; they know not credit, nor bank-notes, nor bills of exchange; hence gold must be sent out, just as in the United States cash alone can be used to move the crops at certain stages. Our own purchases of cotton from the land of the Pharaohs are usually settled by exchange upon London; it is not unlikely, however, that, had we been in a position to make advances directly by exports of gold to Alexandria, we might have obtained our proportion of the crop now coming in upon more advantageous terms than we shall have to pay hereafter.

It is not merely as a source of supply of cotton that Egypt merits our attention; the fact that having that staple to sell she has the power to command gold, and the further fact that the greater part of the yellow metal so acquired is practically withdrawn from monetary use, are circumstances that have not received adequate consideration in the estimates relating to the gold-supply of the world. The statistics show that a large amount has annually gone into hoards; like India, and in a less degree China, Egypt has become a place for the secretion of a substantial part of the world's annual gold product, diverting it from availability for monetary purposes. The evidence indicates that, except in certain short periods, the trade movement has been enormously favorable to this accumulation for nearly half a century, or since the period of maximum prices for cotton, due to the interruption of production during our Civil War. Although the statistics of the trade movement are not as complete as might be desired for the earlier years, say from 1861 to 1878, and are defective even for more recent years, a sufficient number of facts are available to clearly illustrate the remarkable conditions.

Before entering upon the discussion of trade returns, however, the general status of the country should be considered. Although nominally independent, Egypt is technically a vassal state of Turkey, paying in tribute annually nearly \$3,500,000.\*

While the area of the whole territory is nearly 400,000 square miles, the settled portion is slightly under 13,000 square miles

\* The tribute was capitalized and sold by the Sultan to French investors.

(say 8,300,000 acres), or a little more than the area of Massachusetts and Connecticut combined; but this contains a population of nearly 10,000,000 souls. The cultivable area, after deducting water areas, marsh and desert land, is 6,400,000 acres. With nearly 2,000,000 families, there are 1,150,000 landholders, cultivating about 5,340,000 acres; the great majority hold only small tracts. Cotton is now the chief product; formerly beans and grain were largely cultivated, but the facility with which the more valuable fibre crop can be brought out has caused a diversion of activity to this special industry. In 1892 the cultivated area was 4,961,000 acres, of which 864,000 were in cotton; in 1906 cotton occupied 1,506,000 acres; the product increased from 5,000,000 cantars\* (666,000 bales) to 7,000,000 cantars (927,000 bales) in the period. The number of landholders in 1892 was about 660,000.

The revenues of Egypt are derived from a land tax, or rent, (which formerly contributed more than one-half the total); from duties on imports and exports; from railways owned by the state, etc. The chief single item of expense is the public debt charge; very considerable amounts have been expended upon public works, particularly irrigation projects, made necessary to utilize the waters of the Nile, absolutely the only means of supplying moisture for agriculture; hence the mainstay of the nation's life.

While, as stated, Egypt is semi-independent, this is to be qualified so far as the financial administration is concerned; in 1879 this was placed in the hands of two controllers, one appointed by Great Britain and one by France; in 1883 the French withdrew, and since then the British control has been supreme; Sir Evelyn Baring (later known as Lord Cromer) having been the dominant influence while acting as British Agent and Consul-General from that year until his retirement early in 1907. Control of the purse meant practically control of the Government. All the Great Powers of Europe are directly interested in the administration of the debt through the holdings by their bankers and investors of the Egyptian bonds, part of which the Powers guaranteed; but they have interfered very little with the policy of the British representative, who is backed by a small "army of occupation" (about 5,500 men) and assisted by a

\* Cantar equals ninety-nine pounds; bales average about 750 pounds.

considerable corps of foreign civil officials, chiefly British. It may hence be assumed that British interests were not neglected, and these have not always been in harmony with Egypt's greatest welfare. In 1885, the gold standard was adopted; Turkish, French and British gold coins are legal tender, the last named being preferred and most in use. Bank-notes have a very limited circulation, and only since 1898, when the National Bank was established with the power of issue.

An important factor in Egyptian affairs has been the Suez Canal, begun in 1859 and finished in 1869 under French auspices. Egypt had a large interest in this enterprise through ownership of one-half the Company's share capital of 200,000,000 francs (say \$38,600,000); a part of this block of stock was distributed, and the remainder, about 44 per cent., was in 1875 sold to the British Government. Egypt is entitled to 15 per cent. of the surplus earnings after providing for interest charges on about \$50,000,000 of bonds and other obligations, and 5 per cent. dividend upon the shares; and the entire property comes to the state in 1965. But the royalty of 15 per cent. was pledged for a loan in the seventies and foreclosed by the French holders in 1880; hence it yields nothing to the state.\*

No little part of the troubles of the country, prior to the dual foreign control of the finances, was due to the lavish expenditures of the then Khedive, in enormous personal outlays, promoting enterprises not always profitable, causing personal debts which were later put upon the state. The Khedive had under his personal control over 900,000 acres of choice land until 1876, when, by reason of his financial difficulties, he surrendered this large tract to the state, his debts being assumed at the time by the issue of mortgage bonds thereon; as the lands are disposed of, the bonds are retired with the proceeds.

The land tax, or rent, a burden upon agriculture, was in 1882 about \$25,000,000; for a series of years it produced less, but now it yields about the same sum to the treasury; it is, however, collected much more easily, being distributed among a larger number of landholders and over a larger area with more remunerative crops.

To further assist cultivation of the soil, an Agricultural Bank was established in 1902, to make advances, generally in small

\* It has proved an enormously valuable asset to those who acquired it.

sums, to farmers; loans ranging from \$2.50 to \$100 are made without mortgage, for short terms; larger ones, for longer terms, up to \$2,500, are secured by mortgage; the average amount of the latter was, in 1906, under \$300. The total sum loaned was reported to be \$35,000,000; the rate for these advances was 9 per cent. until 1906, when an 8-per-cent. charge was fixed upon.

Turning now to the trade reports, as the indices of the economic status, it is desirable to divide the period covered, first taking up the years from 1861 to 1880, when foreign control became effective. The inaccuracy of the reports is partly due to the fact that, under the tariff laws, exports are valued at 10 per cent. less than the current wholesale market price of the commodities; and it is not improbable that imports have also been somewhat undervalued. The report of Lord Cromer for 1905 (p. 97) contains a discussion of this subject by one of the experts of the Government (M. Roussin); contrasting the British returns for five years with the Egyptian returns, a difference of fully \$50,000,000 is shown, even after adding the 10 per cent. above referred to. This gives an average difference of fully 20 per cent., only partly offset by freight charges.

The eminent British statistician, Mulhall, gives the values of exports and imports as follows:\*

	Exports.	Imports.	Excess Exports.
1861-70.....	£176,000,000	£64,000,000	£112,000,000
1871-80.....	130,000,000	52,000,000	78,000,000
Total.....	£306,000,000	£116,000,000	£190,000,000

A study of the several returns indicates that Mulhall allowed for the difference in valuations; he thus gives Egypt a credit balance with the rest of the world of something like \$925,000,000. This appears large; but the circumstance that the cotton crop, which in 1861 was valued at \$7,000,000, was estimated at \$74,000,000 in 1864, indicates that the sum stated is not susceptible of material reduction.

With such a balance it is not surprising that large expenditure was indulged in by the Khedive; but the outlays were so great that borrowing became necessary. The country began in 1862-3 to permit itself the luxury of a national debt for the first time in its modern annals. The debt grew rapidly, and the conditions

\* In "Balance Sheet of the World," 1881, p. 20.

of the borrowing were onerous; the annual debt charge in the budgets averaged 41 per cent. of the total and caused periodical deficits; Mulhall estimates the amount of these from 1861 to 1881 at \$460,000,000. He states that by 1880 the borrowing had been nearly \$600,000,000 gross, upon which there was charged over \$130,000,000 by way of discounts, and an even greater sum was chargeable to items which did not benefit the country. Obviously, the assumption of control of finances in 1879 came none too soon. Egypt's great wealth product was being dissipated.

The era of lavish expenditure gave the country, however, 943 miles of railway, the Suez Canal, harbors and other public works, sugar factories, and the former Khedival domains.

That the enormous trade balance was in substantial part liquidated by the importation of actual specie is clear; but no record thereof appears in the Egyptian statistics. Great Britain alone reports a loss to Egypt of approximately \$95,000,000 in gold; and France furnished even a larger quota, as shown by incomplete data at hand; it may be safely assumed that the net gain for the period was as much as \$200,000,000; but a large part of this went into hoards, absolutely unavailable as capital except for land purchases. Estimates give the sum in use for money purposes at \$60,000,000 only, in 1883.

The new fiscal management soon brought about balanced budgets, and, ultimately, surplus revenues. While a part of the debt was extinguished, it was chiefly in the category of land bonds cancelled as lands were sold; and since other debts were incurred for extension of railways (now about 1,330 miles, valued at \$115,000,000), and other public works, the total debt remains substantially the same as when the British took control in 1883, viz.: \$468,000,000; but this does not include \$12,000,000 of obligations issued for the very expensive Assouan Dam. The annual charge is, however, materially less than formerly, the bulk of the debt being at 4 per cent. and under, against 7 per cent. prior to the reconstruction.

The budget figures, which in the eighties showed under \$46,000,000 of average revenues, gave fully \$50,000,000 annual average in the nineties, and \$75,000,000 for 1906. The expenses have been less than the revenues since 1887, when reserve funds were established which reached \$50,000,000 at the end of 1904, and the total now stands even higher; \$42,750,000 thereof has since been

invested in securities. The reserve was accumulated in part to meet possible emergencies that might arise in connection with the water-supply, manifestly a wise precautionary measure; whether the investment of so large a part of it in securities was equally commendable is an open question, when the imperativeness of a possible emergency need is borne in mind.

Following are the trade returns and specie movements in millions of dollars from 1879, by four-year periods:

	Merchandise.			Specie.		
	Imports.	Exports.	Net Exports.	Imports.	Exports.	Net Imports.
1879-82.....	141.7	258.5	116.8	68.6	16.3	52.3
1883-86.....	164.2	230.1	65.9	47.6	25.0	22.6
1887-90.....	153.1	223.0	69.9	49.3	42.5	6.8
1891-94.....	181.3	256.6	75.3	57.3	44.0	13.3
1895-98.....	197.0	247.1	50.1	67.8	41.6	26.2
1899-1902.....	274.9	323.6	48.7	81.5	41.4	40.1
1903-06.....	406.1	421.9	15.8	135.2	51.8	83.4
Totals.....	1518.3	1960.8	442.5	507.3	262.6	244.7

Allowing for a net import of silver of about \$14,700,000, the gain of gold was \$230,000,000.

Having in mind that the exports were very considerably undervalued, it is not improbable that the actual credit in the trade movement was \$640,000,000, and that some \$400,000,000 was settled otherwise than by specie. The annual charge on the debt, almost all of which is held in Europe, and the Turkish tribute, are sufficient to account for more than this sum. Upon the other hand, there have been very large investments of capital by Europeans in Egyptian enterprises; furthermore, the tourist business, which brings annually a large sum to the country, has been increasing; hence, even allowing \$1,000,000 for gold annually used in the arts, the reported gain of \$230,000,000 since 1879 is not reducible. Nevertheless, the accepted statistics of the United States Mint Bureau give to Egypt a stock of gold of \$129,000,000 for 1896, only \$30,000,000 for 1902, \$17,400,000 for 1903, and \$87,000,000 for 1905.

For our immediate purpose it is of interest to note that \$50,000,000 of gold was reported as in the treasury about the end of 1904, and that the banks at that time held \$12,000,000, giving a total of \$62,000,000 visible stock; estimates of the amount in current use are necessarily indefinite; but if the accepted one



of \$75,000,000, given in our Mint Report for 1906 (p. 82) is taken, the current stock might thus be placed at \$137,000,000. It is obvious that, if the gain of \$230,000,000 is considered, the sum hoarded is, as Lord Cromer says, *very large*; for there was unquestionably a very considerable amount of gold in the country (including hoards) at the end of 1878; if this sum was only \$100,000,000, which is most conservative, the addition of \$230,000,000 net in the intervening years would leave \$193,000,000 unaccounted for, practically hoarded; indeed, the sum is probably \$50,000,000 larger. It is well known that Egyptian hoards are numerous: there are, for example, 12,400 landholders possessing in all 2,356,000 acres of the most productive territory, hence enjoying large incomes, the surplus of which accumulates.

The trade returns for the four years last past indicate increasing imports; the net exports of merchandise averaged only \$4,000,000 per year; yet the net imports of specie averaged nearly \$21,000,000. Much more gold would have been imported but for the disbursement of the treasury reserves. Doubtless, introduction of new capital, as well as undervaluations of exports, accounts for the gain in specie. In 1906 alone the net gain was about \$35,000,000; and despite the present stringency the movement to Egypt goes on, only slightly restrained.

The conditions brought about (1905-6) an era of speculation, particularly in real estate; values rose enormously, and expansion followed in other lines. A reaction from the inflated values has since taken place. But these incidents affected the cotton-planter in only a negligible degree; the price of cotton was well maintained, having ranged for "good fair" quality, between 14 and 21½ cents per pound in 1905-7, against 11½ to 19¾ cents in 1903-5; in fact, prices reached the highest point in over a decade, with active demand, and they are at the moment at about 19 cents compared with 17¾ cents a year ago.

The question of special interest is whether this command of gold will continue. The policy of the Government has, as indicated, steadily favored agriculture, and it is certain that the development of the cotton industry will go on; the officials claim that regularity of the water-supply is now assured, and plans are already mooted to provide for an important increase in the irrigation and drainage facilities, which will render very large

tracts of now unused land cultivable.\* The funds therefor are available, and the policy of further enlarging cotton areas will prevail. Should the progress on these lines equal that made in the recent past, Egypt's power to demand gold will be proportionately increased. While it is true that food-products are now imported in much larger measure than formerly, because of the lessened production compared with home demand, the substitution of cotton has proved a great economic advantage. Comparing the decade 1888 to 1897 with 1906, exports of beans and cereals have diminished from \$4,500,000 annually to practically nothing, whereas imports of cereals and flour increased \$6,500,000; but exports of cotton and cotton-seed have increased \$60,000,000 in value—a net trade gain of \$49,000,000.

Lord Cromer in his last report intimates that the annual cotton crop may be increased to 10,000,000 cantars, as against the present product of 7,000,000. At the export value for the year 1906, it is thus possible that Egypt may have a solid credit item in trade of over \$160,000,000 for cotton alone. It needs only to increase the crop by 43 per cent. to bring about the maximum; that percentage of gain was accomplished in the past decade. There will, therefore, probably be an even greater annual diversion of yellow metal to Egyptian hoards; an economic fact fully as important as that which has for more than seventy years been observed in the case of India, where \$900,000,000 of gold has been absorbed by hoarding. All the arts of modern finance have failed to counteract this Oriental habit of depriving the world of so much of its basis for liquid capital.

M. L. MUHLEMAN.

\* For example, the Wadi Rayan project, long ago proposed by one of our citizens, Mr. Cope Whitehouse. See U. S. Senate Doc., 104, 1906.